

November 18, 2006

**HOT TOPIC**

## Will the New Congress Shift Gears on Free Trade?

November 18, 2006; Page A7

**THE MAIN EVENT**

President Bush set off for Vietnam empty handed Friday, after the House failed to vote for normalized trade relations with the Asian country.

\* \* \*

Mr. Bush is one of 21 leaders gathering in Hanoi to discuss forming an Asia Pacific free-trade agreement. His hope had been to show up with a completed trade deal as a sign of the U.S. commitment to an open global trading system. Instead, he faces a Congress increasingly skeptical of such trade agreements.

In the midterm election, at least five Senate seats and 16 House seats switched from members of Congress who are generally supportive of free-trade agreements to those who express more skepticism.

**MORE**

- [The WSJ editorial board's view](#)<sup>1</sup>
- [By the Numbers](#)
- [Plus, see a transcript](#)<sup>2</sup> of

President Bush's remarks in Vietnam on trade and other issues.

The new trade skepticism could affect a variety of congressional actions important to global businesses. Here's a look at some of them:


**Free-Trade Agreements:** Since 2001, Mr. Bush has overseen the implementation of 13 free-trade agreements -- bilateral or regional trade agreements.

Faced with resistance to multinational agreements, President Bush has made these smaller deals a cornerstone of his "competitive liberalization" agenda. There are 11 free-trade negotiations under way, which will likely face challenges in the new Congress. Two more -- with Peru and Colombia -- have already been concluded by the Bush administration and are awaiting approval by Congress. Trade analysts say it is unlikely the agreements will be ratified unless new environmental and labor provisions are inserted.

**Fast-Track Authority:** In 2002 the president signed a bill that gave him trade-promotion authority, also known as fast-track authority. It allows him to negotiate trade agreements, and then submit them for congressional approval on an expedited basis. Congress can only vote yes or no on the agreement, and it has no power to make amendments.

The fast-track law expires in June 2007, and trade analysts expect Democrats won't be quick to

**DOW JONES REPRINTS**

 This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit: [www.djreprints.com](http://www.djreprints.com).

- [See a sample reprint in PDF format.](#)
- [Order a reprint of this article now.](#)

renew it without significant changes, including more consultation authority for Congress.

**Doha:** Over this past summer, negotiators of the Doha Round -- talks initiated in Doha, Qatar in 2001 -- sought to reach a multination agreement to further break down trade barriers. The negotiations collapsed, partly because the European Union and the U.S. didn't agree to cut farm subsidies. It is unlikely the Doha talks will be revived in the next year in part because the Bush administration knows it would face an inhospitable Congress.

**China:** China is certain to be a big issue for trade skeptics in the new Congress. The country accounts for 24% of the U.S. trade deficit, and its exports are growing at a faster clip than those of most countries.

Prominent members of Congress accuse China of violating labor standards and manipulating its currency to give it an unfair advantage in the global market. Senators Chuck Schumer (D., N.Y.) and Lindsey Graham (R., S.C.) have threatened to impose a 27.5% tariff on Chinese goods if China doesn't revalue its currency. Rep. Charles Rangel (D., N.Y.) and incoming House Speaker Nancy Pelosi (D., Calif.) have advocated taking China before the World Trade Organization to challenge what they call unfair labor practices.

**Outsourcing:** Some Democrats in Congress support tax legislation to curb outsourcing, although no specific proposals have yet been introduced. Analysts say tax provisions of the 2004 American Jobs Creation Act could come under review since some members of Congress believe the act encourages companies to move activities offshore. Bill Reinsch, president of the National Foreign Trade Council, says the new Congress may end up using carrots -- such as tax incentives for businesses that operate within U.S. borders -- rather than sticks to keep jobs in the country.

--Lauren Etter

## FACTS

Revenue from tariffs accounts for less than 2% of total federal revenue, down from about 50% in the early 1900s. The average tariff on all goods is about 1.4%, down from 20% during the Great Depression.

Among the goods that individuals cannot bring into the U.S.: Uncertified Iberian ham, a gourmet Spanish ham marbled with fat; absinthe, a spirit famously drunk by Vincent Van Gogh; and any product containing dog or cat fur.

Between 1997 and 2003, about 2.9 million jobs were lost overseas to trade, according to the Federal Reserve Bank of New York. That is about 40,000 jobs a month on average, and amounts to about 2.4% of total U.S. employment as of 2003.

Last year, the U.S. eliminated quotas on textiles and apparel imports from 39 countries in the World Trade Organization. As a result, U.S. textile and apparel imports from China increased 44% to \$22.4 billion in 2005 from the year before.

Canada is the single-largest U.S. trading partner. China became the second single-largest U.S. trading partner in 2005, bumping Mexico down to third place.

As of 2002 -- the most recent date for which data are available -- China had about 109 million manufacturing workers, down from a peak of 130 million in 1996. The U.S. had about 17 million manufacturing workers in 2002. Japan had 12 million, Germany had 8.5 million and Canada had 2.3 million.

**POINTS OF VIEW**

*"I will fight for Montana priorities in the U.S. Senate by standing firmly opposed to unfair trade agreements...that hurt our communities and way of life."*

**--Jon Tester (D., Mont.), newly elected member of the Senate**

*"Just 5% of the world's consumers live in the U.S. If we want to grow business and the economy we need better access to foreign markets."*

**--Dan Ikenson, analyst, Cato Institute**

*"At a time when the U.S. more than ever needs to look outward, there is a danger that a significant change in course would make our country look inward."*

**--Myron Brilliant, U.S. Chamber of Commerce**

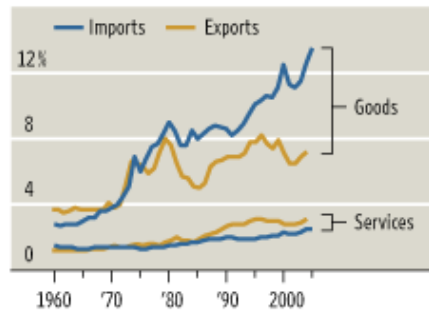
*"There is a center core [in Congress] that has been and will continue to be pro-trade. They will want to do some things that the president won't like and that the Republicans won't like but that doesn't translate automatically to a disaster for the trade agenda."*

**--Bill Reinsch, president, National Foreign Trade Council**

## Talks and trade-offs

A look at U.S. trade, outsourcing and trade agreements that were signed into law over the last 72 years:

### U.S. trade as a percentage of GDP



### Projected U.S. jobs moving offshore\*



### Milestone trade agreements

- 1934 Reciprocal Trade Agreements Act of 1934:** Created fewer trade barriers between the U.S. and global economies.
- 1962 Kennedy Round:** Reduced export barriers for developing countries.
- 1979 Tokyo Round:** Included tariff reductions and curtailed nontariff barriers.
- 1994 Uruguay Round Agreements Act:** Established WTO, made international trade rules include intellectual property rights and trade in services, improved procedures for resolving international trade disputes.
- 1994 North American Free Trade Agreement (NAFTA):** Investment liberalization and protection among North American nations, resulting in market integration and a boost in agricultural trade.
- 2002 Trade Act of 2002:** Provided Executive Branch with ability to negotiate international agreements that require an up or down vote, but not amendment, by Congress.
- 2005 Central America Free Trade Agreement (CAFTA):** Allowed freer trade between the U.S. and Central America, creating the second-largest U.S. export market in Latin America, after Mexico.

\*Projections from a 2003 Forrester Research report, titled "Near-Term Growth of Offshoring Accelerating"

Sources: Commerce Department; Forrester Research; Economic Report of the President

#### URL for this article:

<http://online.wsj.com/article/SB116382078310227201.html>

#### Hyperlinks in this Article:

- (1) <http://online.wsj.com/article/SB116381226771726992.html>
- (2) <http://online.wsj.com/article/SB116379942246226670.html>

Copyright 2006 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit [www.djreprints.com](http://www.djreprints.com).